



Investment Office

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June 19, 2006

AGENDA ITEM 5b

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** California Initiative Program Update
- II. PROGRAM:** Alternative Investment Management (AIM) Program
- III. RECOMMENDATION:** Information only
- IV. ANALYSIS:**

This agenda item represents a follow up to the California Initiative Program (the "Program") update presented to the Investment Committee in February 2006.

As background, in November 2004, Staff provided the first update on the California Initiative Program to the Investment Committee. At that time, the Investment Committee directed Staff to enhance the reporting of the Program and to ensure that CalPERS' partners were adhering to stated investment objectives. In 2005, Staff engaged third party consultants (Pacific Community Ventures and LP Capital) to assist in this effort.

At the February 2006 Investment Committee meeting, Staff and its consultants provided a summary of the California Initiative Program's financial results as well as a summary of the ancillary benefits achieved since the Program's inception. The ancillary benefits information, which focused primarily on the gains made in underserved markets in California,

Members of the Investment Committee

June 19, 2006

Page 2 of 3

was captured in the Initial Non-Financial Assessment Report (distributed at the February meeting).

Upon review of the Initial Non-Financial Assessment Report, the Investment Committee directed Staff and its consultants to provide more detail with respect to the criteria used to measure the Program's impact on underserved markets in California. This update is designed in part to address the issues raised by the Investment Committee.

Attachment 1 contains a PowerPoint presentation highlighting the additional information requested by the Investment Committee.

The AIM team and its consultants will present the summary report and will be available to answer questions at the Investment Committee meeting.

Further Developments of the California Initiative Program

Over the last several months, Staff has been exploring the idea of creating the next California Initiative Program. Establishing a new investment vehicle with a mandate to invest in California's underserved markets is a component of the AIM strategic review implementation plan.

Concurrent with other pending mandates, Staff has received proposals from 3rd parties to partner with CalPERS on the next California Initiative. Staff and Pension Consulting Alliance, the consultant to the Investment Committee on AIM, are evaluating the responses and interviewing and visiting with the better candidates. The strategy, structure, and dollar amount of the Program have not yet been determined.

Staff plans on working with the Investment Committee over the next several months to incorporate its thoughts and ideas into the Program.

One of the new ideas under consideration is to allow other California-based pension funds and financial institutions to invest alongside CalPERS in underserved markets throughout the state. This could be accomplished by structuring the next California Initiative as a syndicated investment vehicle, with CalPERS as the lead (but not the sole) investor. Clearly, this would depend upon the other investors' desire and ability to participate. Nonetheless, the next California Initiative could be structured in such a way so as to accommodate other investors/pension funds if they choose to participate.

Staff will provide a more detailed update at the August or September, 2006 Investment Committee meeting and will seek further guidance and input.

V. STRATEGIC PLAN:

Goal VIII, manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions and Goal IX, achieve long-term, sustainable, risk-adjusted returns.

VI. RESULTS:

Attached is a brief presentation highlighting updated information about the California Initiative.

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